

11/9/2016

Michigan House of Representatives
Regulatory Reform Committee

Chairman Franz and members of the committee, thank you for the opportunity to join you today as we share with you the story of Michigan's growing and highly acclaimed distilled spirits industry.

My name is Jon O'Connor, owner and co-founder of Long Road Distillers in Grand Rapids, the first distillery in the history of the place known nationwide as Beer City USA. I am here today to speak in support of SB 448 now being considered by this committee.

The craft beverage industry in Michigan, and very significantly in Grand Rapids, has been a significant catalyst in the growth of our local economy and revitalization of our neighborhoods and neighborhood business districts. Our distillery is located on the Westside of Grand Rapids in a neighborhood that saw little to no investment over the course of the last 20 years with many vacant storefronts and less than desirable businesses, mixed in with a few long standing businesses who have weathered the changes in the neighborhood. The location of our distillery along with our neighboring businesses, the Mitten Brewing Company and Two Scott BBQ, have now created a foundation at the corner of Leonard St and Quarry Ave that serves as a destination for the revitalization of the neighborhood business corridor. Every day we now have people from all of the country who come to our neighborhood specifically to have a cocktail at our distillery or sample our spirits, drink a beer or grab some BBQ.

Our goal when starting Long Road was to create world class spirits utilizing the abundant resources available to us here in West Michigan. We are proud to be a 100% grain to glass spirits producer utilizing only grains and fruits from Michigan. We are fortunate to be located where we are in the world and to have great partners like Heffron Farms in Belding and Pilot Malt House in Byron Center who provide us with all of the amazing grains and fruits that Michigan has to offer. These are uniquely Michigan businesses who are critical to our success. Heffron is a fourth generation family farm and Pilot Malt House is only the second malt producer in Michigan since Prohibition. Their commitment to the products they produce has supported our endeavors in producing our award winning products.

We have now been open 18 months. Our projections for the first year of operations had us using 80,000 to 100,000 lbs of grain, we more than doubled that projection utilizing in excess of 250,000 lbs. We are on pace to utilize over 500,000 lbs in our second year and 1,000,000 in year three if we are able to continue to invest in the resources we need to manage our production like additional barrels for aging, silos for grain management, a larger warehouse for processing and storage, and additional fermenters - but most importantly we need to invest in our people.

We projected to create 8 jobs when we opened. We now employee in excess of 20 individuals, including 3 distillery team members and 17 plus staff members running our tasting room and kitchen. We need to hire more people, one or two more highly skilled team members are needed to help with distillery operations and we are in process of expanding our kitchen and will be needing to hire 3-5 more folks as kitchen and tasting room staff.

SB 448 would provide significant support to our operations as we try to manage our growth. We currently distribute only in the state of Michigan however our distribution partners and some of our larger national chain accounts have requested that we begin working to distribute our products across the Midwest to 3-5 additional states in the next year. This is however may prove challenging for us given our capital constraints and need for additional equipment.

The change in the MLCC markup as proposed from 65% to 20% would have a dramatic and immediate impact upon our ability to grow and grow quickly. We could begin immediately reinvesting those dollars into barrels, equipment and people.

The implementation of SB 448 appears to be a very simple and efficient process to manage. The first 60,000 gallons of spirits sold is very easy to track. Once a month, every distillery in the United States is required to file a form with the Department of Treasury, Alcohol and Tobacco Tax and Trade Bureau the Monthly Report of Processing Operations. On line 33 of this form a disclosure is made indicating the number of Proof Gallons which were with Withdrawn Tax Determined. This indicates all spirits which left your distillery to be sold and where Federal Excise Tax was paid, this includes all spirits sold in distribution or within your tasting room if allowed by law in your state. This report easily identifies and allows for the tracking of the 60,000 gallon threshold.

The calculation of the Markup reduction also appears to be a very ease metric to track for both the Distiller and the MLCC. For spirits in distribution, meaning those we send to one our Authorized Distribution Agent partners here in Michigan, the Markup is managed by the ADA with the ADA responsible for collecting payments on behalf of the state. For spirits we sell in our tasting room, we file a our Monthly Small Distiller/Brandy Tax Form with MLCC which shows how many bottles, at what size were sold in our tasting room and at what tax rate and total tax amount was for each product. This information is easily aggregated to allow for the easily and efficiently calculated return of the markup as described.

Markup relief will help our industry continue to grow. It will allow us to be competitive with distilleries in other states here in the Midwest who have less tax burden, it will allow us to continue to support our amazing partners in the Michigan agriculture industry, it will continue to bring tourists to Michigan to experience some of the best locally made distilled spirits you will find in any state in the country and it will help us continue to create jobs and opportunities for people here in Michigan.

On behalf of myself and the team at Long Road and our partner distilleries in the Michigan Association of Craft Distillers we encourage you to support this legislation that will help our industry grow and thrive to be a leader in the country much like beer and wine have done already.

Thank you for your time and consideration,

Jon O'Connor
Long Road Distillers
Owner and Co-Founder
537 Leonard St NW
Grand Rapids, MI 49504
616-450-5649
jon@longroaddistillers.com